

## Message Text

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PAGE 01 LISBON 02866 01 OF 02 111701Z  
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03  
SP-02 LAB-04 SIL-01 OMB-01 L-03 /058 W  
-----111740Z 025454 /50

R 111618Z APR 77  
FM AMEMBASSY LISBON  
TO SECSTATE WASHDC 0903  
INFO AMCONSUL OPORTO

LIMITED OFFICIAL USE SECTION 1 OF 2 LISBON 2866

E.O. 11652: N/A  
TAGS: EINV, PO  
SUBJECT. ITT DEVELOPMENTS

REF: (A) LISBON 2558 (B) LISBON 1635

SUMMARY. ITT VICE PRESIDENT LUKE AND MINISTER OF INDUSTRY NOBRE DA COSTA MET FOR TWO HOURS ON APRIL 7 TO DISCUSS ITT PROBLEMS. LUKE PRESENTED ITT POSITION AND PROPOSALS. MINISTER PRESENTED GOP POSITION AND STATED THAT MOST OF ITT PROPOSAL APPEARED REASONABLE ENOUGH TO PROVIDE BASIS FOR CONTINUED NEGOTIATIONS. BOTH SIDES APPEARED SATISFIED WITH OUTCOME AND ANOTHER MEETING SCHEDULED FOR APRIL 21. END SUMMARY.

1. ITT VICE PRESIDENT LUKE HELD TWO HOUR MEETING ON APRIL 7 WITH INDUSTRY MINISTER NOBRE DA COSTA AND SECRETARY OF STATE FOR INDUSTRY SANTOS MARTINS. COMMATT AND LUKE'S ASSISTANT ALSO ATTENDED.

2. LUKE BEGAN MEETING BY AGAIN PRESENTING BASIC ITT POSITION THAT ITS FIRMS HAD SUFFERED SERIOUS FINANCIAL DAMAGE SINCE APRIL 1974 AND THAT GOP SHOULD COMPENSATE THEM. HE OUTLINED PRESENT SITUATION OF EACH FIRM AND COMMENTED UNFAVORABLY  
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PAGE 02 LISBON 02866 01 OF 02 111701Z

ABOUT DELAYED PRESENTATION AND SUBSTANCE OF GOP COUNTER-PROPOSAL. (REF A)

3. LUKE THEN SKETCHED FOLLOWING SETTLEMENT WHICH HE STATED WOULD BE SATISFACTORY TO ITT:  
A. GOP OR PORTUGUESE BANKING SYSTEM WOULD IMMEDIATELY PAY \$18 MILLION TO ITT FOR INTER-COMPANY PAYABLES AND ITT

LOAN AND LOAN GUARANTEE. LUKE STATED THIS WAS NON-NEGOTIABLE.

B. REMAINDER OF ITT'S DEBTS TO PORTUGUESE BANKING SYSTEM WOULD BE CANCELLED OR CONVERTED TO LONG-TERM DEBT AT LOW INTEREST RATE.

C. THE FOLLOWING STEPS WOULD BE TAKEN BY THE GOP TO MAKE THE INDIVIDUAL FIRMS ECONOMICALLY VIABLE:

1. RAISE ROOM RATES SUBSTANTIALLY AT THE SHERATON.
2. SIGN LONG-TERM CONTRACT WITH IMPRIMARTE FOR PRINTING OF DIRECTORIES FOR GOP-OWNED TELEPHONE COMPANIES.
3. FREEZE IMPORT OF SEWING MACHINES AND ALLOW OLIVA MONOPOLY PRODUCTION.
4. CONTRACT WITH STANDARD ELECTRICA TO SUPPLY TELEPHONE EQUIPMENT FOR 100,000 TELEPHONE LINES ANNUALLY.
5. ALLOW DISMISSAL OF 1000 WORKERS AT OLIVA AND STANDARD ELECTRICA.
6. GOP SHOULD PURCHASE RABOR.

4. NOBRE DA COSTA RESPONDED THAT GOP WOULD DISCUSS AND COULD PROBABLY REACT POSITIVELY TO MOST POINTS. HE STATED GOP NOT INTERESTED IN PURCHASING FIRMS AND WISHED TO INTERVENE IN THEIR MANAGEMENT AS LITTLE AS POSSIBLE. HE STATED CLEARLY THAT GOP DESIRED THAT ITT REMAIN IN PORTUGAL. NOBRE DA COSTA AND LABOR MINISTER GONELHA HAD AGREED TO RECOMMEND TO PRIME MINISTER APPROVAL OF LAY-OFF OF 1000 WORKERS AS LONG AS IT WAS STAGED (TWO PHASES OF 500 EACH) AND ITT WOULD PAY FULL INDEMNITY. MINISTER THOUGHT HE COULD RECOMMEND HOTEL PRICE INCREASES AND LONG-TERM CONTRACT FOR IMPRIMARTE. WHILE 100,000 TELEPHONE LIMITED OFFICIAL USE

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PAGE 03 LISBON 02866 01 OF 02 111701Z

LINES ANNUALLY SEEMED TO BE LARGE ORDER, NOBRE DA COSTA STATED HE WOULD DISCUSS POSSIBILITY WITH COMMUNICATIONS MINISTER. THE RABOR PROBLEM COULD BE LEFT FOR LATER (SIX MONTHS) WHEN WORKERS ATTITUDES WILL HAVE MELLOWED TOWARDS ITT.

5. MINISTER STATED CLEARLY THAT IMMEDIATE PAYMENT OF \$18 MILLION (WHETHER CALLED INDEMNITY OR ANYTHING ELSE) WAS OUT OF THE QUESTION. HOWEVER, HE IMPLIED SOME ARRANGEMENT FOR MEETING THIS ITT DEMAND COULD BE DISCUSSED. FOR INSTANCE, GOP GUARANTEE MIGHT BE SUBSTITUTED FOR ITT GUARANTEE ON \$5 MILLION GERMAN LOAN TO OLIVA. HE THEN QUERIED WHETHER LOAN AND PAYABLES COULD BE CONVERTED TO MEDIUM TERM DEBT TO ITT AT COMMERCIAL RATES. FINALLY, SAYING HE NEEDED SOMETHING TO HELP SELL A POSSIBLE SOLUTION TO GOP POLITICIANS, NOBRE DA COSTA ASKED WHAT ITT WAS

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PAGE 01 LISBON 02866 02 OF 02 111712Z  
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TO SECSTATE WASHDC 0904  
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LIMITED OFFICIAL USE SECTION 2 OF 2 LISBON 2866

PREPARED TO DO IN EXCHANGE FOR GOP AGREEMENT OR CONCESSIONS ON FIRM'S DEMANDS.

6. LUKE RESPONDED ITT WOULD SEND BACK ITS MANAGEMENT AND DO WHATEVER WAS NEEDED FOR THE RECUPERATION OF THE FIRMS. MINISTER PRESSED FOR SPECIFICS BUT LUKE HARDENED POSITION AND CONCENTRATED ON DEMAND BY ITT BOARD OF DIRECTORS FOR IMMEDIATE INDEMNITY.

7. REST OF MEETING CONSISTED OF GIVE AND TAKE ABOUT TYPES AND VALUE OF ASSETS AND RELATIVE IMPORTANCE TO EACH SIDE OF A SATISFACTORY SOLUTION. MINISTER POINTED OUT THAT ITT HAD JUST MADE A PROVISION FOR A RESERVE FOR LOSS OF PORTUGUESE ASSETS (ALONG WITH THOSE IN RHODESIA) AND SOLUTION OF PORTUGUESE PROBLEM COULD SIGNIFICANTLY IMPROVE ITS FINANCIAL POSITION. LUKE COUNTERED THAT INVESTMENT CLIMATE COULD BE AFFECTED BY DEVELOPMENTS ON ITT/ GOP PROBLEM.

8. LUKE SPECIFICALLY ASKED MINISTER ABOUT RECENT BANKING SYSTEM CREDIT CUT-OFF TO OLIVA FOR RAW MATERIALS AND SALARIES, IMPLYING THAT THIS COULD WORSEN FIRM'S SITUATION AND COMPLICATE NEGOTIATIONS, (SEE REF B). NOBRE DA COSTA  
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PAGE 02 LISBON 02866 02 OF 02 111712Z

STATED HE HAD ALREADY DISCUSSED WITH FINANCE MINISTRY POSSIBILITY OF FINDING SOME CREDIT FOR FIRMS, LUKE APPEARED SATISFIED, ESPECIALLY WHEN MINISTER NOTED THAT

DELAY OF SALARY MIGHT IMPROVE WORKERS ATTITUDES AND PRODUCTIVITY.

9. MINISTER AND LUKE AGREED TO HOLD ANOTHER MEETING IN LISBON ON APRIL 21 TO DISCUSS FULL GOP RESPONSE AND COUNTER-PROPOSAL TO LUKE'S PROPOSAL.

10. COMMENT: LUKE LATER STATED HIS SATISFACTION WITH MEETING. HE NOTED NOBRE DA COSTA WAS FIRST GOP OFFICIAL HE HAD MET WHO WAS KNOWLEDGEABLE ABOUT BUSINESS AND FINANCE. LUKE REMARKED FAVORABLY ABOUT MINISTER'S FRANKNESS, KNOWLEDGE OF DETAILS OF ITT OPERATIONS IN PORTUGAL, AND WILLINGNESS TO COMMENT ON CHANCE OF SUCCESS OF ITT PROPOSAL. HE APPEARED BUOYED BY THE PROSPECT OF A NEGOTIATING CHALLENGE AND STATED INTENTION TO COMMATT TO REPORT FAVORABLY ABOUT MEETING TO ITT BOARD.

11. NOBRE DA COSTA HANDLED HIMSELF WELL. HE WAS SELF-ASSURED AND FRANK - EVERY INCH THE EX-PRESIDENT OF A LARGE WESTINGHOUSE SUBSIDIARY IN PORTUGAL. THE ONLY HINT OF RANCOR DURING THE MEETING WAS THE MINISTER'S JIBE THAT LUKE WAS NOT TALKING LIKE A RATIONAL BUSINESSMAN WHEN HE STATED ITT WOULD REFUSE TO PAY INDEMNITIES FOR THE 1000 LAID-OFF WORKERS. LUKE APPEARED TO TAKE JIBE WELL.

12. EMBASSY EFFORT TO IMPROVE ATMOSPHERE OF NEGOTIATIONS BY DISCUSSING PROBLEMS BEFOREHAND WITH BOTH LUKE AND MINISTER MAY HAVE HAD FAVORABLE AFFECT ON MEETING. (AMBASSADOR, ECONCOUNSELOR AND COMMATT MET SEPARATELY WITH SOARES, MINISTER OF INDUSTRY AND LUKE DURING WEEK PRIOR TO MEETING). MINISTER WAS PREPARED FOR LAY-OFF DEMAND AND FOR QUESTION ABOUT OLIVA FINANCING. LUKE APPEARED MORE LIMITED OFFICIAL USE

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PAGE 03 LISBON 02866 02 OF 02 111712Z

APPRECIATIVE OF GOP'S POLITICAL PARAMETERS AND GREATLY TONED DOWN HIS CRITICISM OF THE MARCH 22 COUNTER-PROPOSAL.

13. CLEARLY, THE TWO BASIC DIFFERENCES BETWEEN THE PARTIES INVOLVE THE IMMEDIATE PAYMENT OF \$18 MILLION AND NOBRE DA COSTA'S PROFESSED NEED FOR AN ITT COMMITMENT TO INVEST AS PART OF A SETTLEMENT. LUKE NOTED LATER THAT HIS STATEMENT ABOUT ITT DOING WHAT IS REQUIRED FOR RECUPERATION OF THE FIRMS COULD IMPLY INVESTMENT. WITH REGARD TO IMMEDIATE PAYMENT, THERE MAY BE ENOUGH FLEXIBILITY ON BOTH SIDES TO ARRANGE CAMOUFLAGED MEANS OF SHORT AND LONGER TERM "COMPENSATION." VALUATION DETAILS AND MECHANICS OF ITT RETURN WILL HAVE TO BE LEFT FOR RESOLUTION AFTER AGREEMENT ON GENERAL PRINCIPLES. EMBASSY FEELS THERE ARE ENOUGH COMMON INTERESTS TO MAKE SATISFACTORY SOLUTION POSSIBLE

OVER SHORT TERM.  
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## Message Attributes

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